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C O N F I D E N T I A L KUWAIT 000943

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DEPT FOR EB/ESC/IEC, NEA/ARP; ENERGY FOR WILLIAMSON

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SUBJECT: KUWAIT PETROLEUM COMPANY TO DISCUSS NEW REFINERY
LOCATION WITH CHEVRON; EXPECTS TO TENDER PROJECT IN OCTOBER

REF: A. KUWAIT 606

1B. KUWAIT 383 AND PREVIOUS

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

11. (C/NF) On 17 June, Kuwait National Petroleum Company (KNPC) announced it is inviting international EPC (Engineering-Procurement-Construction) companies to apply for pre-qualification for contracts related to KNPC's plans to build a new 615,000 bpd mega-refinery in the Kuwaiti portion of the Partitioned Neutral Zone (PNZ) shared by Kuwait and Saudi Arabia. (Note: Both the Government of Saudi Arabia and Chevron have voiced their objections to the proposed refinery location since, they contend, it would impinge on the operations of Saudi Arabian Chevron (SAC) which holds the Saudi concession for exploration and production in the PNZ. See reftels.) After an initial single-contract tender for the project issued in late 2006 returned bids of \$15 billion and more, KNPC sought and received approval from the Government to increase the budget for the project from \$6 billion to \$12 billion and reduce the liability to individual contractors by breaking up the original contract into five separate contracts for different project components: process plant I, process plant II, utilities and offsites, tankage, and marine facilities. Applications for pre-qualification are due by July 3. U.S.-based Fluor has already been named project manager, and other major U.S. EPC contractors are likely to bid. KNPC Deputy Managing Director Hussain Ismail told Econoff on 18 June that although KNPC is moving forward with the steps of pre-qualification and designing the individual contracts, it does not plan to issue tenders for the actual EPC contracts before October 2007 at the earliest.

12. (C/NF) Regarding the concerns surrounding the Saudi objection to the proposed site, KNPC Chairman Sami Al-Rushaid told Econoff on 18 June that KNPC had received authorization from the Oil Ministry on 13 June to enter into direct discussions with Saudi Arabian Chevron to address specific concerns and seek a mutually-agreeable accommodation. (Comment: This is a positive development. Until now the Oil Minister has resisted suggestions, including those voiced in an advocacy letter sent by Secretary Bodman on January 11, that the two companies be allowed to work out a solution directly without elevating the matter to a government-to-government issue. In a separate meeting on 15 May, Petroleum Advisor to the Amir Khaled Al-Fulaij told the Ambassador that a letter sent by Saudi Foreign Minister Saud Al-Faisal had unnecessarily inflated and complicated the issue.) SAC Executive Director for Planning Randy Dahlman confirmed to Econoff on 18 June that KNPC Project Engineer Ahmad Al-Jimaz had contacted Chevron to request a meeting. Chevron plans to hold this meeting with KNPC after SAC Senior Vice President for Operations Dudley McDaniel returns to

Kuwait on 23 June.

For more reporting from Embassy Kuwait, visit:
<http://www.state.sgov.gov/p/nea/kuwait/?cable> s

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LeBaron